



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	HB0325	<b>Title:</b>	Revise property tax laws for active duty military
<b>Primary Sponsor:</b>	Miller, Mike	<b>Status:</b>	As Introduced

- |  |   |  |
|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2             | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget        | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	Unknown	Unknown	Unknown
State Special Revenue	\$0	Unknown	Unknown	Unknown
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

**Description of fiscal impact:** HB 325 would provide a property tax exemption of 50% for Montana residents serving on active duty in the regular armed forces or the Montana National Guard and stationed out of state. While there is data on National Guard deployments, there is no data on regular armed service deployments of Montana residents. The fiscal impact of this bill is therefore unknown, but should be assumed to be substantial.

### FISCAL ANALYSIS

#### Assumptions:

- HB 325 proposes a property tax exemption of 50% for Montana residents serving on active duty in the regular armed forces or the Montana National Guard and stationed out of state. The owner must be stationed out of state for at least 7 months of the year. The property cannot be occupied during the time the owner is stationed out of state. The owner may not rent or lease the property or derive income from the property. The exemption is limited to 20 acres.

2. The exemption terminates on December 31 of the year that the owner does not qualify for the property tax exemption, the property is moved out of the county, or if the property taxes on the exempt property are delinquent. The home owner must apply for the exemption by providing a complete affidavit to the department, on a form provided by the department, for the taxpayer to qualify for the exemption. The application must be made before July 31 of the tax year in which the exemption is to begin. The bill's provisions apply to property tax years beginning after December 31, 2015.
3. The median appraised value for a residential property in Montana is \$172,700 in 2014 (FY 2015). The statewide average mill levy in 2014 was 559.85 mills. The homestead exemption in 2014 was 47%; the tax rate in current law is 2.47%.
4. The typical taxes paid for a medina value home would be \$1,266. This bill would exempt 50% or \$633.
5. Taxes collected on the property exempted under this bill must be distributed in the relative proportions required by property tax levies for state, county, school district, and municipal purposes.
6. The reduction in state revenue through the 95 and 6 mill shares of the state wide average mill levy would be (102/559.83) 18.2% or \$115 per household on average.
7. Because of the way school and local government mill finance works, the remainder of the reduction (\$518) would be local jurisdiction tax shifts to other tax payers in those affected jurisdictions.
8. Information was obtained from the Montana National Guard that currently there are 8 individuals who might be eligible to apply for the exemption if this bill passes. However, the department was unable to obtain information on how many Montana residents may be active military and would be eligible for the exemption because they own property in the state that would qualify.
9. Information from the American Community Survey indicates that there are about 94,000 veterans in Montana which means that in some point in their lives; almost 10 percent of Montanans have served in the military. Therefore, even though the number of properties that might be eligible is unknown, it is possible that it is significant. It is also not possible to estimate the number of Montanans who might be deployed in the future.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b><u>Expenditures:</u></b>				
TOTAL Expenditures	\$0	\$0	\$0	\$0
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	Unknown	Unknown	Unknown
State Special Revenue (02)	\$0	Unknown	Unknown	Unknown
TOTAL Revenues	\$0	\$0	\$0	\$0
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	Unknown	Unknown	Unknown
State Special Revenue (02)	\$0	Unknown	Unknown	Unknown

**Effect on County or Other Local Revenues or Expenditures:**

1. There will be a shift of property taxes to other taxpayers in affected jurisdictions.

**Long Term Impacts**

1. Even though the number of properties that might be eligible is unknown at this point, it is possible that the revenue impact to the state and local entities could be significant due to the historical proportion (10%) of Montanan's who have served in the armed forces, reserve, or national guard. The potential impact could be significant. If 2% were mobilized, the costs could be as high as 0.5% to 1% of the \$1,411 million in total property taxes levied in TY 2014. The costs could be higher if there were a full mobilization of U.S. armed services.

**Technical Notes:**

1. In New Section 1, the ad valorem taxes would be exempt "except an assessment for a special improvement district of a rural special improvement district". This language is unclear as fees charged by local taxing jurisdictions. The department suggests that the language could be made clearer as to whether fees and specials assessments charged by local taxing jurisdictions are to be paid, or if they are exempt.
2. New Section 2 states that the eligible person must be on active duty and stationed out of the state for at least 7 months a year, and that the property may not be occupied, leased or rented and the owner cannot derive income from the property. Under these provisions, it will be difficult to verify compliance. The department recommends that language be added on verification or the department be provided authority to clarify in rule.
3. New Section 2, and lines 27 & 28, the bill states that "property may not be occupied." It is unclear if the spouse and family can remain in the property and still qualify for the exemption.
4. In New Section 3, lines 13 and 14 page 3, it states that "The application must be made before July 31 of the tax year in which the exemption is to begin." This is very late in the tax year; it may impact Certification of Value (COV) from the department to the local taxing jurisdictions. COV is statutorily required to be sent to the local taxing jurisdictions by the 1st Monday in August. The department suggests that the application deadline be changed to earlier in the year. Other tax assistance applications are due by April 15.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*